



Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

**SUBJECT: MARCH BUDGET MESSAGE
FOR FISCAL YEAR 2008-2009**

DATE: March 7, 2008

Approved: *Chuck Reed*

Date: *3/7/08*

RECOMMENDATION

I recommend that the City Council direct the City Manager and Redevelopment Agency Executive Director to submit a proposed balanced budget for Fiscal Year 2008-2009 that is guided by the policy direction and framework of priorities outlined in this Message. Proposals for budget reductions should be developed with a level of analysis that includes detailed data, justification, and outcomes for City Council consideration later this spring.

INTRODUCTION

For the seventh year in a row, San José is facing a significant budget shortfall – \$22.3 million in our General Fund operating budget alone. The City's charter requires that the City balance its budget, which will require us to cut services that are vital to our residents and businesses.

San José's current budget problems, which date to the dot-com bust in 2000, could be compounded by the State of California's deficit. Actions to close the state's \$14 billion deficit could drastically change the fiscal outlook for the City.

As we look ahead over the next five years, we face a General Fund structural budget deficit of approximately \$137 million. The cumulative total of our projected expenses and budgetary commitments are projected to exceed our projected revenues from fees, taxes, and other sources. Unless we take action, essential services such as police, fire, parks, and libraries will be impacted.

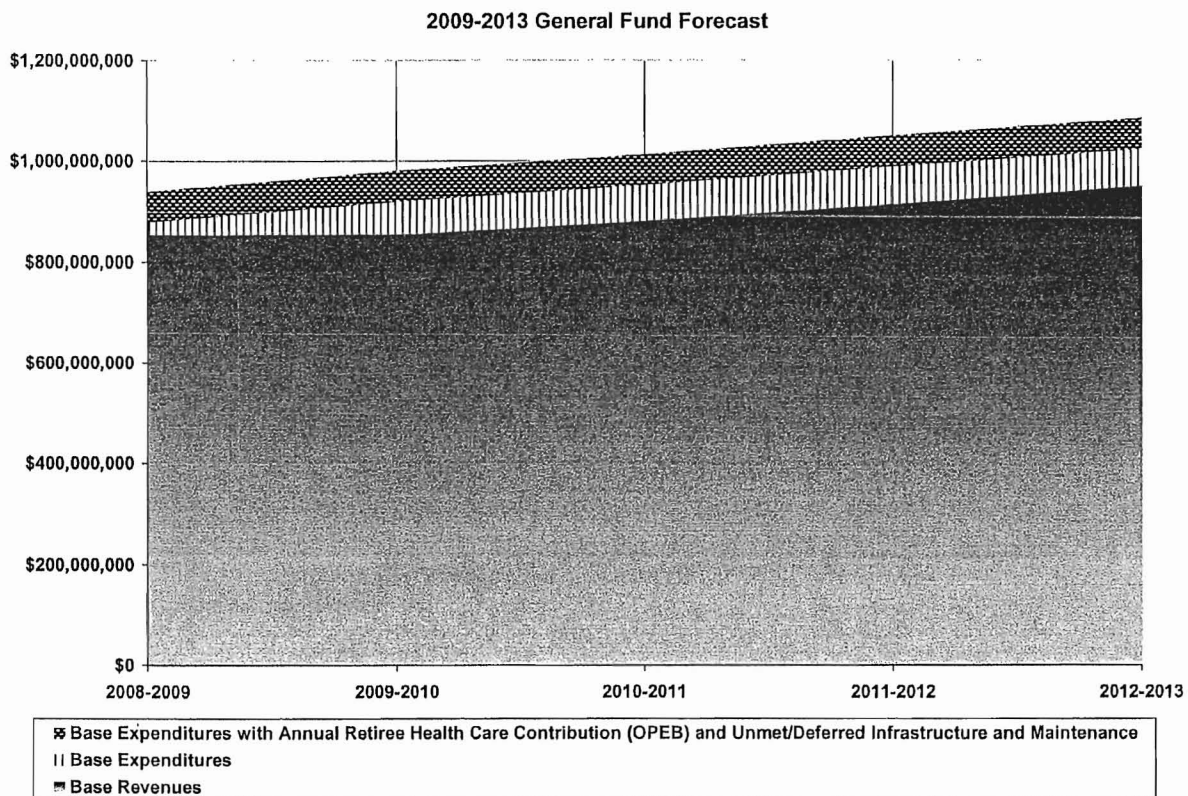
The structural deficit includes:

- A total four-year operating deficit of \$75.1 million, according to the 2009-2013 General Fund Forecast. This total reflects the projected costs of delivering existing services and accounts for the majority of the structural deficit.
- Unmet needs and deferred infrastructure needs totaling \$40.2 million.
- Unfunded liabilities for retirement benefits of \$21.6 million that are not included in the City's budget forecast model.

The \$137 million structural budget deficit does not include the backlog of \$500 million to get our aging City infrastructure such as streets, sewers, and community facilities back into adequate condition.

In each of the next five years, the growth in expenditures is projected to exceed the growth in revenues. San José's revenues are projected to grow an average of 2.76% annually over the next five years, which is not sufficient to meet the projected expenditure growth rate of 4.12%.

As the following charts show, we face significant challenges in the years ahead. Even with the significant budget deficits of the past decades, our spending has gone up faster than our revenues. We no longer can ignore this problem. We have a structural budget deficit because our expenses continue to grow faster than our revenues. We have a spending problem.



When the expenditure trends are broken out and analyzed by category, the analysis indicates that personal services costs, which account for approximately two-thirds of the General Fund budget, are the largest factor driving expenditure growth to levels that exceed revenue growth. Factors that impact the growth in personal services costs include scheduled step increases, negotiated salary and benefit adjustments, and retirement plan actuarial studies.

Historically, we've balanced our budget each year with one-time solutions with the hope that the economy will bounce back and again boom. We must be realistic about the challenges we face.

Even if we benefit from an economic recovery, even if all of our economic development strategies are successful, there likely would not be enough revenue to eliminate our structural gap. Just closing this year's \$22.3 million General Fund deficit would require the sales tax revenue from five more Valley Fair shopping centers, ten Oakridge malls, or a couple dozen big-box stores.

San José is hardly alone in having a problem of expenditures growing faster than revenues. Other cities have these problems and worse. In the past few weeks, the City of Vallejo made headlines for having to consider declaring bankruptcy. San Diego also faced bankruptcy as a result of the retirement system having a \$1.4 billion deficit.

We must be cognizant of and learn from the problems facing other cities. As we review their situations, a critical lesson emerges for San José: we must understand our budget challenges now and we must take immediate action to solve our structural deficit to limit the impacts on the services that are most important to our community.

BACKGROUND

In accordance with Section 1204 of the San José City Charter, I present my Fiscal Year 2008-2009 Budget Message for consideration by the City Council and the public. The Mayor's March Budget Message is based on several sources. These include my recent State of the City address, community survey, input from the community and Councilmembers through priority setting sessions, stakeholder input through the Manager's Structural Deficit process and the City Manager's Budget Request and Five-Year Forecast document.

This memorandum will provide an initial framework for the City Council to give the City Manager specific direction on March 18 to prepare proposals for the Council's budget deliberations in May. Further City Council discussion and additional budget study sessions and public hearings will take place before the final budget is presented for adoption in June.

This message intentionally does not contain a lot of new spending proposals. Instead this message focuses on making progress against the structural deficit while preserving essential services for our residents that had previously been set by the City Council and our residents.

The Five Three-Year Goals of the City Council and Neighborhoods are (not in priority order):

1. Regain our status as the safest big city in America.
2. Eliminate the structural budget deficit.
3. Reduce deferred maintenance and the infrastructure backlog and develop a strategy to improve the infrastructure.
4. Increase economic vitality.
5. Provide full funding for parks, pools, community centers and libraries, including maintenance, operation and development.

These priorities were not just developed by me but in partnership with the community and City Council. This process follows direction provided last year when the City Council unanimously approved several items related to the Reed Reforms which gave direction to “Change to a Community Based Budgeting Process.” The reforms that the City Council unanimously approved are:

- Start the budget process with a survey of the public in early January. (Reed Reform #29)
- Hold a Conference on Priorities with neighborhood associations in late January. (Reed Reform #30)
- Have Council hearings in February to set priorities. (Reed Reform #31)
- Report the results of items 29-31 in the Mayor’s March Budget Message. (Reed Reform #32)

Recognizing that taking no action to solve our structural deficit will only lead to service cuts year after year, the City Council also unanimously set up a process to eliminate our structural deficit. The City Manager’s Office was tasked to work with the Mayor’s Budget Shortfall Advisory Group in reviewing the budget from top to bottom to find options and alternatives for the City Council to consider.

The guiding principle behind these processes is to help steer us in making the right decisions as we solve our structural deficit. The residents of San José deserve solutions that are based on long-term perspective, not one-time fixes. We must question continued funding for programs considered to be a low priority by the community as well as thoroughly evaluating proposed elimination of programs that are a high priority. The processes and the steps that we are taking go beyond addressing our fiscal challenges. They provide a blueprint for future governing, for community interaction and decision making, with trust, transparency, and responsiveness. The processes above also ensure that we uphold the best interest of the community, first and foremost, while putting everything on the table for consideration and evaluation. Governing means choosing and we will again have to make some tough choices this year.

In writing this Budget Message, I have reviewed the surveys, the ideas from residents and employees, and comments from my fellow Councilmembers and have made a sincere effort to ensure this Budget Message reflects the community’s and the City Council’s priorities and ideas while moving forward in eliminating our structural deficit. The following sections summarize the results of this year’s community budget process and our efforts to eliminate the structural deficit.

1. Community Budgeting Process

a. Neighborhood Association Priority Setting Session Results

The Neighborhood Association Priority Setting Session was held on January 19, 2008 at City Hall. This year’s meeting provided an opportunity for neighborhood association leaders to learn more about the budget challenges facing the City and the possible options for addressing the structural deficit. The meeting was attended by more than 120 people representing nine of our

Council Districts, participants from 84 different neighborhood groups, and two youth commissioners, and was offered in three languages: English, Spanish, and Vietnamese.

The forum provided participants with the opportunity to share ideas regarding service priorities. The group developed a list of 95 things that they liked that the City accomplished in 2007. The following is a summary of input collected from the group:

Top Priorities for New and Unfunded General Fund Initiatives Programs (if funding were available)

- Unmet/ Deferred Infrastructure and Maintenance Needs
- Police 5-Year Staffing Plan
- Trees - Municipal Code Enforcement
- GASB 43/45 (Retiree Healthcare)

Top Priorities for Master Strategies for Dealing with the Structural Deficit

Revenue Strategies

- Extend the Emergency Communication System Support Fee
- Increase Transient Occupancy Tax to Market and Shift to General Fund
- Restructure Business Tax Rates to Modernize and Reflect Current Business Profits
- Utilize Financing Strategies which have Positive Net Present Value
- Ensure Current Fees Fully Cover All City Costs

Service Delivery Model Changes

- Formalize and Implement a Rigorous Asset Management Program
- Combine Redevelopment and City Corporate Support Functions and Shift Economic Development Costs to Maximum Extent Possible
- Increase Use of Civilian Positions in Police and Fire
- Revise Competition Policy, Implement Managed Competition for Service Delivery, and Optimize Work Processes

Expenditure Controls and Shifts

- Reduce Workers' Compensation, Disability and Overtime Costs
- Shift Construction and Conveyance Tax Funding from Capital Projects to Operating and Maintenance Costs
- Implement Sick Leave Payment Upon Retirement Program Modifications
- Implement Health Care Plan Modifications

b. Community Budget Survey Results

According to this year's telephone survey:

- A majority of residents believe the City is spending the right amount of money on key service areas that were subject to the survey.

- Most respondents believe that the City has started its recent budgets with a deficit, and will again this year.
- Among the major categories of City services, respondents prioritize street repairs and public safety. Respondents generally saw street maintenance as under-funded. Among a list of more specific possibilities, residents label synchronized traffic lights, street repairs and additional police as important.
- 65% of respondents want cost savings over revenue increases and service cuts.
- Respondents prefer changing modes of service delivery as an approach to the deficit.
- Selling underused city property stands out amongst potential service delivery changes.

c. Council Priority Setting/Unfunded General Fund Programs Session Results

On February 15, 2008 the City Council, Council Appointees and Senior Management Staff participated in an all-day study session that provided them with the opportunity to continue to engage in the strategic planning efforts we began in 2007 with a focus on the outcomes from the Community Based Budgeting Process. They re-affirmed the Mission Statement and three-year goals as listed on page 3 of this document.

The group identified 90 things that they believed the City had successfully accomplished in 2007. They had a thorough discussion about the Top Priorities and Master Strategies developed by Management Partners. Participants reviewed both the City and Agency's Unfunded Needs lists and set priorities. The results are as follows:

Top Priorities for the City's New and Unfunded General Fund Initiatives and Programs

- Transportation Infrastructure
- Technology Infrastructure/Software
- GASB 43/45 (Retiree Healthcare)
- Building Facilities

Top Priorities for the Unfunded Redevelopment Projects

- Convention Center Expansion
- B of A BART Portal
- Vision North San José Implementation Fund
- SNI Projects
- Autumn Parkway/Coleman Corridor
- Biotech Pilot Manufacturing Phase 1 Plant

2. Mayor's Budget Shortfall Advisory Group

In March 2007, the City Council unanimously directed the City Manager to work with a proposed Mayor's Budget Shortfall Advisory Group (BSAG) with a goal of developing a plan to eliminate the General Fund structural deficit in three years. During the process, input was solicited in large and small stakeholder focus groups composed of the City's Senior Staff, the

City Labor Alliance, employees, neighborhood leaders, business members, and City Commissioners. In addition, an internet survey on budget priorities generated 2,033 responses from employees and 656 responses from the community. After stakeholder input and thorough analysis, the City Manager identified numerous strategies for potential City Council adoption. **Attachment I** outlines the opportunities for community and public input on solving the structural deficit. The Mayor's Budget Shortfall Advisory Group reviewed the recommendations from the City Manager's *Strategies to Address the City's General Fund Structural Budget Deficit* and made additional recommendations to strategies, next steps and amendments to the Budget Principles as outlined below. I am recommending that the City Council adopt these recommendations as amended below.

1. Allocate 1/3 of the total amount of the structural budget deficit as planning targets to be achieved over three years in three areas:
 - 1) Revenue Strategies (including economic development)
 - 2) Service Reductions
 - 3) Cost Savings (Service Delivery Model Changes/Expenditure Controls and Shifts)
2. Direct the City Manager to make recommendations in November 2008 that outline the timing and amounts of revenue increases, cost savings, and service reductions as part of the Three-Year Structural Deficit Elimination Plan to be considered by the City Council.
3. Direct the City Manager and Executive Director to work with the Mayor to conduct outreach to stakeholders as part of the process for development of her recommendations for revenue increases, cost savings, and service reductions to be considered by the City Council in May and November. The outreach should include meetings with stakeholders who may be impacted by revenue increases, cost savings, and service reductions to give them opportunity to comment on the strategies developed by Management Partners, and to suggest alternatives. **Attachment II** details the proposed outreach plan.
4. Approve the following additions to the budget process beginning in Fiscal Year 2008-2009:
 1. May 2008
 - 1) Top priority strategies to eliminate the General Fund Structural Budget Deficit are brought forward for City Council consideration due to timing urgency and/or immediate opportunity to implement.
 2. November 2008
 - 1) The City Manager recommends a Three-Year Structural Deficit Elimination Plan that is reviewed as part of the updated forecast.
 3. March 2009
 - 1) Progress and assumptions of the Three-Year Structural Deficit Elimination Plan reviewed as part of the 5-year forecast.
 - 2) Adjustments to the Three-Year Structural Deficit Elimination Plan recommended by Mayor and considered by City Council in the March Budget Message hearing.

4. May and June 2009
 - 1) Discussion and hearings on revisions to the Three-Year Structural Deficit Elimination Plan as part of the budget process.
 - 2) City Council approves annual budget, and modifications to the Three-Year Structural Deficit Elimination Plan.
5. November 2009
 - 1) Steps above are repeated until the structural deficit is eliminated.
6. Adopt the recommended Budget Principles, which have been adopted by the Mayor's Budget Shortfall Advisory Group, as detailed in **Attachment III**.

GENERAL BUDGET GUIDELINES

1. All proposals for either budget reductions or augmentations should be measured against the following criteria:
 - a. Impact on essential public services.
 - b. Adherence to Council-approved priorities.
 - c. Relative importance to operational efficiency.
 - d. Effect on fiscal integrity and flexibility.
 - e. Economic impact and jobs.
2. Because of the extraordinary challenge we face this year, I recommend that the City Council approve the general budget balancing strategy guidelines as proposed in the 2008-2009 City Manager's Budget Request and 2009-2013 Five-Year Forecast and Revenue Projections document, as we consider our direction to staff for preparing budgets for next fiscal year.
3. The City Manager shall:
 - a. Develop a proposed budget that is balanced based upon our current forecast.
 - b. Set aside funds in the May 1 Proposed Budget that are adequate to fund each Appointee's Office and the Mayor/City Council Offices equal to the average non-public safety City Service Area (CSA) expenditure reduction.
 - c. Maximize ongoing reduction strategies to help solve future deficits to the fullest extent possible.
 - d. Require that all reductions that are personnel-related be ongoing cuts and not one-year freezes to better overcome future deficit projections.
 - e. Immediately coordinate and aggressively pursue opportunities for the City (and community-based organizations with technical assistance from the City) to apply for grants to support programs in priority areas.

- f. Avoid budget cuts that could mean the loss of grants or our ability to leverage other resources.
- g. With the exception of the Independent Police Auditor and Executive Director's proposals that are displayed as part of the Public Safety CSA and Community and Economic Development CSA, include all other Council Appointees' budget reduction proposals under the Strategic Support CSA for the May 1 proposed budget and include them in Budget Study Session discussions during the Strategic Support CSA.
- h. Identify new proposed additions within a CSA's department proposal, rather than just including them within the base budget.
- i. Budget reductions applied to non-public safety CSAs should be applied at generally the same level to our partner community-based organizations that receive General Fund support, with the goal of minimizing the impact on direct services to our residents and businesses.

Investment Strategies

The CSAs integrate services provided in individual departments into the City's six key lines of business. For clarity and consistency with the budget document, the recommendations have been listed by their respective CSA.

1. Community and Economic Development CSA

San José must continue to be the best place in America to live, work, do business and raise a family. Every effort needs to be made to support and sustain economic expansion and promote strong growth in jobs, income and revenue to San José. It is important that we continue to pursue investments that encourage a vital economy, ensure a diverse range of arts, cultural and entertainment offerings, increase the number of jobs, create and preserve healthy neighborhoods, and ensure a diverse range of housing opportunities. I recommend the following:

- a. **Augment Economic Development Program:** Direct the City Manager and Executive Director to consider increasing resources and/or redeployment in the Office of Economic Development as necessary to more aggressively support and pursue development activities that ensure the accomplishment of City Council directives and Economic Development Strategy Initiatives that will generate significant economic benefits for San José.
- b. **work2future:** The City Manager is directed to identify an approach to support the critical workforce training and counseling programs offered by work2future (which will in the short-term be impacted by Federal WIA budget cuts) and develop a long-term strategy to pursue alternative sources of funding.
- c. **BusinessOwnerSpace.com program (BOS.com):** I recommend the City Manager and Executive Director consider providing funding to support the implementation of the

BusinessOwnerSpace.com program, a virtual incubator that was launched in San José in October 2007. BOS.com serves the needs of small businesses throughout the Silicon Valley and is a collaborative effort between 39 organizations (including eight city departments) that provide business and financial services to support the operations and growth of our small businesses.

- d. **Development Permit Process Improvements:** In the context of maintaining our development programs, the City Manager is directed to explore developing cost-recovery strategies to continue to measurably improve the development permit process through:
 - 1. Exploring potential allocation of resources needed to upgrade the AMANDA Project Tracking System to the greatest extent possible so it can be an effective tool for our residential, office, Research and Development, industrial and retail development applicants.
 - 2. Exploring allocating resources to prepare a city-wide historical survey to catalog our historic landmark resources, and developing appropriate significance criteria and potential preservation criteria such that more certainty is given to the development community while addressing the needs of our preservation community.
 - 3. Reviewing and revising job specifications for engineering staff positions in the Building Division and Fire Prevention Unit to reflect the skill sets needed to support the development permit process.
- e. **Marketing:** The City Manager and the Executive Director are directed to work with the Mayor's Public Information Officer to evaluate all current marketing efforts being made on behalf of the City of San José. They are to identify best practices and possible duplication of efforts for potential cost-savings. This evaluation should be completed by fall 2008 and include, but not be limited to:
 - 1. Global Fluency.
 - 2. Redevelopment Agency (Agency) campaigns to market homeownership in the downtown.
 - 3. Advertising campaigns by the Agency or the Office of Economic Development.
 - 4. Funding to Chamber of Commerce, Downtown Association, Convention and Visitors Bureau, and other organizations.

2. Environmental and Utility Services CSA

The City Council can be proud of its record of environmental leadership and unanimous adoption of the Green Vision last year. San José will continue to be an environmental leader by providing thoughtful programs and policies. Additionally, our utilities are a key component of City services that should be reliable and affordable. To achieve our goals, I recommend the following:

- a. **Green Vision:** The City Council unanimously adopted the Green Vision on October 30, 2007. On February 1, 2008 staff presented the preliminary implementation plan and provided recommendations for achieving the ten Green Vision goals. Building on the strong foundation of existing activities and programs, it is recommended that additional funding be available for implementation in Fiscal Year 2008-2009 to accelerate achievement of the ten goals. I recommend staff develop a mechanism to enable the public to monitor our progress and achievements.

Priority should be given to investments that will:

- Provide long-term cost savings from energy efficiency efforts and other green building practices.
 - Increase economic opportunities for local residents and businesses.
 - Raise awareness of sustainable practices and encourage participation of all residents and businesses in the Green Vision.
 - Produce measurable environmental benefits.
 - Test new clean technologies and green products that may have large-scale application.
 - Create opportunities to leverage outside resources and form meaningful partnerships.
- b. **Energy Improvement District (EID):** The City should do all it can to harness the exciting potential of solar power as an energy source. One possibility is a renewable energy zone connecting major facilities. This zone would monitor, manage and control electrical power and thermal energy distribution utilizing local generation resources, and it would use the grid for back-up power. The power it delivers is affordable, reliable and sustainable. An EID can also insulate key electric power consumers from “grid stress” through local, on site power generation. The City Manager is directed to explore the creation of renewable energy zones in downtown, at the airport, and in North San José.
- c. **Multi-Family Dwellings Recycle Policy:** Multi-family dwellings (MFD), like apartments and condos, present an ideal opportunity to increase recycling in the City. Residents of these units have many disincentives to recycling. The result is a poor waste diversion rate of 35%. Increased diversion rates at these properties will help the City meet Council-approved diversion goals. The City Manager is directed to pursue an expanded MFD Compostables program that would not burden residents with additional recycling requirements.

3. Neighborhood Services CSA

The quality of our lives depends on the quality of our neighborhoods. We must serve, foster, and strengthen our communities by providing access to lifelong learning, opportunities to enjoy life, and preserving healthy neighborhoods. I recommend the following:

- a. **City-Council Initiated Neighborhood Improvement Reserve Fund:** Direct the City Manager to hold \$1 million in one-time funds for needed neighborhood improvements in a reserve fund. These funds will be held in reserve for City Council recommended improvements during the Budget Document process.

- b. **Anti-Graffiti and Anti-Litter:** Anti-Graffiti and Anti-Litter Programs that make our community stronger, cleaner and safer by partnering with volunteers should not be reduced. We also need to ensure that our staff remains constant and vacancies are filled immediately and are not diverted into other jobs. Staff is directed to continue to partner with the County through the Mayor's Gang Prevention Task Force to reinstate the Juvenile Offenders referral program. The City Manager and Executive Director are also directed to explore alternative funding options and to partner closely with the City Council Offices to recruit new volunteers for our quarterly Anti-Graffiti clean-ups.
- c. **Bringing Everyone's Strength's Together Funding (BEST):** The City Manager and Executive Director should bring forward budget proposals to add \$1 million in ongoing additional funding. Staff is also directed to explore partnering with the District Attorney's Office to provide adequate leveraging of funds to continue our Community Prosecutor program. In order to maintain our Clean Slate program, staff is directed to fund \$222,300 of the program's expenses through our increased BEST funds. The City Manager's Office is directed to explore funding to re-activate our Mobile Recreation Unit to expand the availability of recreation services that will provide positive alternatives to San José youth during evening and week-end hours and can be used as a tool by staff to enhance outreach particularly to underserved communities. The Mayor's Gang Prevention Task Force will assist in the identification of neighborhoods and Community Centers that require priority attention.
- d. **Pilot Role Model Program:** The Silicon Valley Leadership Group will partner with the Mayor's Office on developing this new program to get scientists and engineers into our classrooms. The partnership program entitled "High Tech is COOL!" will match successful adult Role Model volunteers from local high tech companies to individual classrooms. The program will create a science/math adjunct to the current Community Classroom Visit Program to specifically focus on increasing the knowledge of and awareness among underserved youth as to the value of science/math careers. This program will reach 10 classrooms and roughly 300 7th grade students in San José. The City Manager is directed to allocate \$10,450 in one-time funding for this program.

4. Public Safety CSA

To have a great city, we must have a city where our residents feel safe. Regaining the title of the Safest Big City must clearly remain a priority as we move forward in the budget process. While remaining cognizant of our budget situation, we must also continue to provide exemplary prevention and emergency response services for crime, fire, medical, hazardous and disaster-related situations. As Mayor, I am committed to walking through the neighborhoods of San José to see first hand what we can do as a city to ensure our residents feel safe, are prepared for emergencies, and are aware of the resources available to them. I recommend the following:

- a. **Funding for 15 Additional Police Officers:** Direct the City Manager to include in the proposed budget, funding for 15 additional police officers to help meet identified priorities such as a rise in property crimes and to improve community policing and traffic calming. The Executive Director is also directed to explore ways that Agency funds can

be used to cover a portion of the costs for these new officers in our Strong Neighborhoods Initiative (SNI) areas.

- b. **Protecting Patrol Staff:** The most essential core service for the Police Department is patrol services. I recommend that this unit receive no reductions to ensure that these essential services continue at current levels.
- c. **Gang and Violent Crimes Investigations:** The City Manager should minimize reductions in investigative work in critical public safety areas such as homicide and gang related cases.
- d. **Truancy Abatement and Burglary Suppression Program:** Truancy has a direct link to increased crime and gang involvement. Direct the City Manager to minimize reductions to these vital services provided in partnership with San José schools.
- e. **Public Safety Retirements and Employment Issues:** Both the Police and Fire Departments are seeing a large number of retirements. The City Manager should review recruitment resources and costs associated to address these vacancies and report back to the City Council. The City Manager is also directed to evaluate the potential of re-hiring public safety employees upon retirement, similar to the Federated Rehire Retiree Program.
- f. **Maximizing Use of Civilian Positions and Identifying Operational Efficiencies:** Direct the City Manager to partner with the Police and Fire Departments in preparing an updated analysis on how to maximize the use of civilian positions to aide sworn positions and to identify areas where we can increase operational efficiencies.
- g. **Increasing Public Awareness of Resources:** We know that our Police Department alone cannot ensure we are a safe city. The City Manager and the Executive Director are directed to launch an aggressive campaign by redeploying our existing resources to ensure our residents know what public safety resources are available to them. Staff is to return to the Public Safety, Finance, and Strategic Support Committee and the Mayor's Gang Prevention Task Force with a detailed plan as to how they will ensure communication with all neighborhoods.

4. Transportation and Aviation Services CSA

Long term City transportation plans are moving ahead with dramatic changes:

- The California High Speed Rail will go directly from San José to Los Angeles.
- We have procured additional state and federal funding to bring BART into San José.
- Through the California Transportation Commission, we have acquired additional state funding for major freeway improvements.
- At the airport, Terminal C demolition, construction of Terminal B and the rental car garage, and improvements to Terminal A are all underway.

These improvements will support San José's economic growth and improve the livability of the region. To continue to provide the community with safe, secure, and efficient surface and air transportation, I recommend the following:

- a. **Airport Pedestrian Safety:** As the airport grows, we need to ensure that the facility remains customer friendly. Often, distracted drivers are searching for the correct terminal, arriving friends and family members, or trying to catch a flight themselves. Pedestrians, forced to navigate through distracted drivers, now have to deal with the additional inconvenience of new construction. The City Manager should explore ways to improve pedestrian safety for airport customers.
- b. **School Area Parking Compliance:** During drop off and pick up times, schools have seen an unreasonable amount of injury crashes, speeding, and illegal parking that endanger San José's children. Additional enforcement is needed to address the impact on student safety and poor traffic flow in school zones. The City Manager, in cooperation with the school districts, should consider measures to solve this problem with the deployment of additional parking and traffic control officers and the reduction of speed limits around schools to 15 mph.
- c. **Crossing Guards:** The City Manager is directed to review the efficiency of the crossing guard program and, to the greatest extent possible, maintain funding. She is also directed to review and discuss alternative service delivery models for the program in conjunction with the school districts.
- d. **Downtown Parking Garage Security:** As we welcome a vibrant, 24-hour downtown, we also need to ensure that the area is safe for everyone. The dedicated police patrols in downtown parking garages on Friday and Saturday evenings have been a success. The City Manager is directed to continue this enhanced security program.
- e. **Traffic Calming:** One of the most pressing concerns of our neighborhoods is traffic management. The City Manager should continue to explore new traffic calming technologies such as red light cameras, flashing crosswalk signs, and flashing speed limit indicators. Additionally, some of the additional police officers to be funded should be dedicated to traffic calming.

6. Strategic Support CSA

San José must continue to be a city that delivers top quality service on a daily basis. We must effectively develop, manage and safeguard the City's fiscal, physical, technological, and human resources to enable and enhance the delivery of city services and projects.

- a. **Elections Commission Audit:** The Elections Commission has been tasked with finding an elections audit consultant to examine all elections races for the past five years. Unfortunately, after issuing a request for qualifications, the Commission has had difficulty attracting a qualified applicant to perform the work due to the extensive scope

of work. The City Clerk is directed to reduce the scope of the audit to the 2006 election cycle and work within the scope of the City Council referrals.

- b. **Technological Outreach:** As the Capital of Silicon Valley, San José must remain nimble and cutting edge in its use of technological resources. The City Manager is directed to work with the Mayor's Office and Councilmember Oliverio to explore consulting with the technology community on topics of importance to the City.
- c. **City Clerk Power of Appointment:** The City Clerk is the only appointee without the authority to appoint employees in her office. I recommend the City Council direct staff to prepare a charter amendment to grant the Clerk this authority.
- d. **City Clerk Office Staffing:** The City Clerk's Office like all other non-public safety entities in the City has been decimated by budget cuts over the past several years. On top of these reductions, the City Clerk has had to take on more responsibility related to Sunshine Reforms. The City Clerk's Office provides a significant level of administrative support to the Mayor and City Council Offices. We need to remain cautious when reviewing reductions and associated impacts to this office.
- e. **Prepayment of Annual Employer Retirement Contributions:** Currently, the City makes employer retirement contributions on a bi-weekly basis. Both the Federated and Public Safety Plan's assumed rate of return generates more interest than the City's investment pool. Thus, by investing the full annual retirement contribution at the beginning of the year, the City would stand to save millions annually. The City Manager is directed to analyze the most cost effective prepayment strategy and report back to the City Council.
- f. **Encumbrance Balance Monitoring:** In order to solve the structural deficit, the City needs to examine if it is using the full extent of its resources. For example, old, unnecessary budget encumbrances tie up money that could be used to fund other important services. The City Manager is directed to support increased oversight of budget encumbrances and create an encumbrance monitoring policy for the Finance Department.
- g. **Retirement Cost Savings:** The City Manager is directed to consider applying unanticipated retirement cost savings to fund the GASB 43/45 liability for retiree health care.
- h. **Employee Suggestion Program:** The Employee Suggestion Program encourages city employees to develop and submit proposals for the improvement of city operations. The strategy ideas produced by city employees are often times an integral starting point for a leading edge program in the City of San José. A program like this can generate up to \$1 million in annual savings and raise employee morale, while fostering a commitment to continuous improvement. The City Manager is directed to bring forward a program for City Council consideration that includes having a Councilmember and employees

participate in the evaluation of ideas and sharing a portion of the savings with those who make suggestions.

- i. **Funding Retiree Healthcare Studies/Issues:** The City Manager is directed to include one-time funding for continuing outreach to stakeholders and researching alternatives to mitigate the unfunded liability related to retiree healthcare, plan design, healthcare consultation and total healthcare management initiatives (e.g., wellness/health promotion, condition management and care coordination).
- j. **Candidate Statements:** Most candidates running for City Council in San José take advantage of the option of submitting a 200 word statement of qualifications with their nomination papers to be printed in the sample ballot sent to registered voters. Requiring the candidate to use their own campaign funds would help reduce the City's total costs of an election, thus alleviating the City's current financial burden. With the average cost of a candidate statement being \$2,100 and \$6,100 for Mayors, the estimated lost revenue for the five-year period (based on FY 03-04 through FY 07-08) is approximately \$200,900. I recommend that we require the candidates to pay the cost of a candidate's statement in the ballot book.
- k. **Budget Outreach Funding:** The City Manager is directed to include funding in the proposed budget to fund the proposed stakeholder outreach and other work associated with the development and implementation of the Three-Year Structural Deficit Elimination Plan.

REDEVELOPMENT AGENCY BUDGET PROCESS

The Redevelopment Agency continues to be a catalyst that stimulates economic growth, job creation, affordable housing, and neighborhood improvements. The Agency's capacity to sustain and encourage economic growth depends on tax increment revenues from its project area assessments reported by the County Assessor in July 2008. In light of the Agency's need to fund its operations until the tax increment revenue base is known in July, I recommend the Agency prepare the FY 2008-09 Proposed Operating and Capital Budget on May 1, 2008, followed by the proposed FY 2008-09 Capital/Program Budget and FY 2008-09 Capital Improvement Program on August 29, 2008.

As preparation of the Agency's budgets begins, we must remain cognizant of the Agency's limited access to revenues as a result of the tax increment cap. It is estimated that the Redevelopment Agency will reach its current financial cap of \$7.5 billion by the year 2024, after which it can no longer collect tax increment. This will paralyze the Agency's ability to complete major initiatives currently under way, such as the Convention Center expansion, the SNI program, North San José improvements, etc. The administration is currently exploring a plan amendment that would increase the cap to a level which will allow it to more accurately reflect the spending necessary to bring the project areas to their currently contemplated conclusion. It is anticipated that this amendment will be presented to the Board and City Council for approval in the fall, with potential approval by the end of this calendar year.

The May 1, 2008 budget would provide necessary funding for ongoing staff costs and contractual commitments, such as leases and obligations to the City and County. The August 29, 2008 budget will update the Agency's future bonding capacity based on the growth in 2008-09 tax increment and projections for future growth. The Agency's bonding capacity will provide the funds for investment in the North San José expansion, Downtown Improvements and investment in the neighborhood project areas. These are my recommendations for inclusion in the Agency's budgets:

- a. **Clean Tech Jobs Investment Fund:** In FY 2007-08 the Agency received a \$4.9 million distribution from the Fairmont Hotel partnership representing the Agency's share of the Fairmont Hotel's net refinancing proceeds. The development of a Clean Tech Jobs Investment Fund is at the crux of the City's Green Vision. I recommend that the Agency establish a Clean Tech fund to attract emerging technology companies in Redevelopment Areas in San José through the acquisition of specialized equipment. I recommend \$2.5 million from the Fairmont payments be used to support the creation of this fund.
- b. **Edenvale/Great Oaks Community Facility Project:** The Edenvale/Great Oaks neighborhood center is a Strong Neighborhoods Initiatives priority. This center will become a hub for community development activities, support neighborhood associations, and provide service to these neighborhoods that have been long underserved. The Blossom Hill/101 interchange project is a candidate for grant funds. The Executive Director is directed to evaluate this project to determine the proper funding level for this project and determine if any excess funding can be transferred to the Edenvale/Great Oaks Community Facility Project.
- c. **Guadalupe River Park Festival Site:** Direct Agency staff to include in the Capital Budget an evaluation of costs associated with creating a festival site in the Guadalupe River Park.
- d. **Establish a Downtown Major Tenant Fund:** Direct the Executive Director to create a fund to attract new driving industry companies and/or encourage existing corporate users to expand their operations in the downtown. This fund would be similar in concept to the Emerging Technology Fund where Agency funds are utilized to attract driving industry corporations to locate in Edenvale. I recommend an allocation up to \$1.4 million from the Fairmont payments.
- e. **Promoting a Vibrant Downtown:** Direct the Executive Director to actively promote, with our development partners and local advocates, downtown San José as the creative and cultural center of Silicon Valley where workers, residents, retailers, investors and the arts community thrive.
- f. **World Class Architectural Program for Downtown Buildings:** Direct the Executive Director to develop design guidelines for downtown development projects so as to inspire unique and world class architectural elements in building design. The Agency is also directed to develop a program where one redevelopment-owned site in the downtown would be awarded at no cost to the developer/architect team which presents a project that

is inspiring, unique and captures the elements of the City's Green Vision and design criteria.

- g. **Downtown High-rise Incentive Zone:** Direct the Executive Director to analyze the impacts and timeline of an expansion of the Downtown High-rise Incentive Zone district boundary.
- h. **Downtown Opportunity Sites:** Direct the Executive Director to develop a plan to identify key downtown opportunity sites for office and residential development to ensure certainty for the development community and provide for further expediting of the permitting process.
- i. **Agency Board Special Improvement Fund:** Direct the Executive Director to hold \$1 million in one-time funds for needed neighborhood improvements. These funds will be held for Board Member recommended improvements during the Agency's budget cycle to be used at the discretion of the Board Members for eligible capital projects in neighborhoods and/or around redevelopment project areas. I recommend this \$1 million allocation come from the Fairmont payments.

UPCOMING BUDGET PROCESS

We have a very difficult challenge facing us as we develop this year's budget in the face of reduced revenues and continuing economic uncertainties. Our principal goals will be to maintain our core services, avoid layoffs, and stimulate our local economy as much as possible. I call on my colleagues to actively seek proposals and ideas that will help us close our budget deficit by reducing costs, eliminating or deferring projects, or obtaining outside resources from grants and partners.

CONCLUSION

The overall goal of this message is to direct Council Appointees to develop their budget recommendations that reflect the policy priorities of the Mayor and City Council. I have outlined a strategy that will balance our ability to continue to provide basic services to our community, help our economy, build strong neighborhoods, stabilize our budget, and as much as possible, prevent the layoffs of the dedicated employees who serve the people of San José. I urge approval by my colleagues.

COORDINATION

This memorandum has been coordinated with the City Manager, City Attorney, and the Executive Director.

**2008-2009 BUDGET PROCESS
COMMUNITY AND EMPLOYEE INPUT OPPORTUNITIES**

October 2007 thru February 2008

- Mayor's Budget Shortfall Advisory Group
 - Public meetings scheduled: 10/1/07; 10/17/07; 10/29/07; 11/15/07; 1/10/08; 1/24/08; 1/30/08
 - Meeting schedule and materials are posted on City's Internet page (www.sanjoseca.gov)

October 22, 2007

- City Manager's General Fund Structural Deficit Task Force 1st Stakeholder Focus Group Meeting conducted:
 - Four stakeholder groups invited to general meeting, including Senior Staff, City Labor Alliance, Employees, and Community and Business Groups (including Boards and Commissions)
 - ✓ Senior Staff and City Labor Alliance - all were invited to participate
 - ✓ Employees - randomly selected from City payroll system
 - ✓ Community and Business Groups (including Boards and Commissions) - recommended by Mayor, City Council and City Manager's Office staff – randomly selected to participate in stakeholder group
 - A total of 85 participants (out of 155 invited) attended meeting to learn about project and brainstorm initial strategies to eliminate deficit

October 26 thru November 9, 2007

- City Manager's General Fund Structural Deficit Task Force Electronic Survey conducted:
 - Separate Community Budget Survey and Employee Budget Survey posted on City's Internet / Intranet web pages – not a scientific survey, people selected to participate
 - Community Budget Survey translated into Spanish and Vietnamese
 - Press release and payroll flyer issued regarding survey
 - 656 community responses and 2033 employee responses were received

November 28-29, 2007

- City Manager's General Fund Structural Deficit Task Force 2nd Stakeholder Focus Group Meetings conducted:
 - Four separate two hour meetings – one with each stakeholder group (Senior Staff, City Labor Alliance, Employees, and Community and Business Groups (including Boards & Commissions))
 - Community and Business Groups (including Boards & Commissions) meeting on November 29, 2007 was open to the public and posted on City's Internet page
 - Focus Groups were updated on the project and provided feedback on the advantages and concerns regarding the preliminary top strategies identified to eliminate the deficit

December 5, 2007

- City Manager Budget Forum conducted for employees on City Manager's General Fund Structural Deficit Task Force work

January 10, 2008

- City Manager's General Fund Structural Deficit Task Force presents final report to Mayor's Budget Shortfall Advisory Group (and Stakeholders) at their meeting that is open to public, 6pm – 8pm

January 2008

- Mayor conducts Community Budget Survey
- Mayor holds Neighborhood Association/Youth Commission Priority Setting Session
 - City Manager's General Fund Structural Deficit Task Force final report will be presented as well as a San Jose Redevelopment Budget overview will be provided

February 12, 2008

- City Council meeting to review Mayor's Budget Shortfall Advisory Committee recommendations

2008-2009 BUDGET PROCESS COMMUNITY AND EMPLOYEE INPUT OPPORTUNITIES

March 2008

- 2008-2009 Mayor's March Budget Message Study Session
- 2008-2009 Mayor's March Budget Message Public Hearing
- Community Budget Meetings in various Council Districts on the Budget Shortfall

April 2008

- Community Budget Meetings in various Council Districts on the Budget Shortfall

May 2008

- Budget Study Sessions on the 2008-2009 Operating and Capital Budgets and Fees and Charges Report
- Initial Public Hearing on the 2008-2009 Proposed Operating Budget, 2008-2009 Proposed Capital Budget and 2009-2013 Capital Improvement Program, and 2008-2009 Proposed Fees and Charges
- City Manager Budget Forum for employees
- Community Budget Meetings in various Council Districts on the Budget Shortfall

June 2008

- Community Budget Meetings in various Council Districts on the Budget Shortfall
- Final Public Hearing on the 2008-2009 Proposed Operating Budget, 2008-2009 Proposed Capital Budget and 2009-2013 Capital Improvement Program, and 2008-2009 Proposed Fees and Charges and 2008-2009 Mayor's June Budget Message
- City Council meeting to approve 2008-2009 Operating Budget, 2008-2009 Capital Budget and 2009-2013 Capital Improvement Program, and 2008-2009 Fees and Charges

**3-YEAR GENERAL FUND STRUCTURAL DEFICIT ELIMINATION PLAN
FRAMEWORK FOR ADDITIONAL STAKEHOLDER OUTREACH**

BACKGROUND

In March of last year, the City Council unanimously directed the City Manager to work with the Mayor's Budget Shortfall Advisory Group to eliminate our General Fund structural budget deficit. The administration was tasked with reviewing the budget from top to bottom to find options and alternatives for the City Council to consider that would eliminate the General Fund structural deficit. In reviewing the budget to find alternatives for the Council to consider, the City Manager's Office, in conjunction with the Mayor's Office, solicited input and feedback about strategies to address the structural deficit from a variety of stakeholders. This outreach included:

- Five stakeholder group meetings
- A day long community meeting at City Hall for neighborhood associations
- Seven public hearings
- A scientific telephone selected scientific survey of 1,000 randomly selected residents
- An online survey of city employees with 2,033 respondents
- An online survey with responses from 650 residents

A complete summary of the opportunities for stakeholders to provide input to date is attached. As part of this process, 320 suggestions were submitted and evaluated.

In January, the City Manager released a report as prepared by Management Partners, Inc. entitled *City of San José – Development of Strategies to Address the City's General Fund Structural Budget Deficit*. The Mayor's Budget Shortfall Advisory Group reviewed the strategies outlined in that report and made additional recommendations to the City Council regarding the development of a Three-Year General Fund Structural Deficit Elimination Plan. These recommendations were initially discussed at the February 12 City Council meeting. One of the recommendations was to conduct additional outreach to stakeholders as part of the process of developing the Three-Year General Fund Structural Deficit Elimination Plan.

ADDITIONAL STAKEHOLDER INPUT

I recommend that we begin conducting additional outreach and meetings with interested stakeholders within the next 30 days. The City Manager and Redevelopment Agency Executive Director should assume responsibility for assisting the appointed chair of the stakeholder group and actively participate in the stakeholder meetings through the outlined process.

The purpose of this effort is to obtain feedback and additional ideas related to the development of a Three-Year General Fund Structural Deficit Elimination Plan to brought forward to the City Council in November. These additional stakeholder meetings will be a forum for the residents and stakeholders of San José to provide the City Manager, Redevelopment Agency Executive Director, Mayor and City Council with their comments and feedback related to the creation of a Three-Year General Fund Structural Deficit Elimination Plan and with additional ideas to solve the deficit.

3-YEAR GENERAL FUND STRUCTURAL DEFICIT ELIMINATION PLAN FRAMEWORK FOR ADDITIONAL STAKEHOLDER OUTREACH

The stakeholder engagement process will follow a six-month schedule (April through September) to develop *Advantages and Concerns* for items under consideration by the City Council and on providing additional ideas for solving the structural deficit. The schedule will include a process as outlined below.

PROCESS	DESCRIPTION
I. Top Priority Strategies	In April, the stakeholder group will be asked to immediately discuss the <i>Advantages and Concerns</i> of Top Priority Strategies identified by the City Manager that should be brought forward to the City Council in May for consideration due to timing urgency and/or an immediate opportunity to implement.
II. Other Strategies	The stakeholder group will identify <i>Advantages and Concerns</i> for other strategies by September.
III. Exploring Additional Ideas	The stakeholder group will develop alternatives and options for consideration in the Three-Year General Fund Structural Deficit Elimination Plan.
IV. Feedback	The City Manager and Redevelopment Agency Executive Director will include a summary of the stakeholder group's <i>Advantages and Concerns</i> as part of the Three-Year General Fund Structural Deficit Elimination Plan to be released in November.

The Council will hold a study session in May to consider the City Manager's and Redevelopment Agency Executive Director's priorities for the Three-Year General Fund Structural Deficit Elimination Plan. Each of the budget stakeholders will be given ample time to present their views and feedback on the City Manager's priorities.

Following the conclusion of the stakeholders meetings in September, their feedback will be provided to the City Council to consider when they review the Three-Year General Fund Structural Deficit Elimination Plan in November. The Council will hold a study session in November at which stakeholders will be given ample time to present their views to City Council.

STAKEHOLDER COMPOSITION

An effective stakeholder group results from balancing size and representation. The recommended composition is a group of 20 to 30 participants. Members of the stakeholder roundtable include a balanced representation of labor, city employees, business, non-profits, taxpayers, and neighborhoods. The Mayor and City Council will nominate possible members of the stakeholder group, and the Mayor will bring a recommended list of participants to the City Council for approval. The Mayor shall recommend a Councilmember to serve as the chair of the stakeholder group, subject to Council approval.

UNDERLYING ASSUMPTIONS

- The primary purpose for the stakeholder meetings is to identify the *Advantages and Concerns* for each of the existing ideas and to add additional ideas for review.

ATTACHMENT II

3-YEAR GENERAL FUND STRUCTURAL DEFICIT ELIMINATION PLAN FRAMEWORK FOR ADDITIONAL STAKEHOLDER OUTREACH

- Information received from the stakeholder group will help inform the City Manager and Redevelopment Agency Executive Director in development of a Three-Year General Fund Structural Deficit Elimination Plan.
- The process must be open and transparent, with relevant information readily available to all.
- All stakeholder meetings will be open to the public and noticed consistent with the Brown Act, and those interested may participate through public comment.
- The Redevelopment Agency Executive Director will be involved in this process and will be a partner in development of the Three-Year General Fund Structural Deficit Elimination Plan.
- Information from the stakeholder meetings are intended to supplement the information received through the budget process.

NEIGHBORHOOD OUTREACH

San José residents have experienced the impacts of the structural deficit first-hand. We must have a continuing dialogue with the community if we are to solve the structural budget deficit. I recommend conducting ongoing neighborhood meetings in each Council District to discuss the budget and to discuss possible solutions for our structural deficit. The Mayor's Office will work with Council offices to engage their respective communities. We will develop a process for obtaining feedback on the budget and strategies to eliminate the General Fund structural budget deficit from community members.

IMMEDIATE NEXT STEPS

- The Mayor and City Councilmembers will nominate possible members for the stakeholder group.
- The Mayor will bring forward a recommendation to the City Council for approval on the stakeholder group composition and for the Councilmember chair position.
- The City Manager and Agency Executive Director will set a date and location for the initial stakeholder meeting.
- The City Manager and Agency Executive Director will work with the Mayor and Councilmembers to invite individuals to participate in the stakeholder group meetings.
- The City Manager and Agency Executive Director will develop a refined schedule and agenda for the first stakeholder meeting.
- The City Manager and Agency Executive Director will refine a schedule based on the first stakeholder meeting and send to the Mayor and City Council as an informational memorandum.
- The Mayor's Office will work with the City Council offices to schedule and hold budget meetings in their respective districts.

RECOMMENDED CITY OF SAN JOSE BUDGET PRINCIPLES

Additions are in bold italics

The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors. The General Fund Budget shall be constructed to support the Mission.

1) STRUCTURALLY BALANCED BUDGET

The annual budget for *the General Fund* shall be structurally balanced throughout the budget process. *A structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection.* Ongoing revenues shall equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance. *The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.*

2) PROPOSED BUDGET REVISIONS

The annual General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any revisions to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a revision(s) creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

3) USE OF ONE-TIME RESOURCES

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. *One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council.*

4) BUDGET REQUESTS DURING THE YEAR

New program, service or staff requests during the year that are unbudgeted shall be considered in light of the City's General Fund Unfunded Initiatives/Programs List and include a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net-zero effect on the budget.

5) RESERVES

All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually as appropriate for each fund. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. *On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses.*

RECOMMENDED CITY OF SAN JOSE BUDGET PRINCIPLES

6) DEBT ISSUANCE

The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

7) EMPLOYEE COMPENSATION

Negotiations for employee compensation shall *focus on the cost of* total compensation (e.g., salary, step increases, benefit cost increases) *while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index (cost of living expenses experienced by employees.)*

8) CAPITAL IMPROVEMENT PROJECTS

Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 *in the General Fund* without City Council certification that funding will be made available in the applicable year of the cost impact. *Certification shall demonstrate that funding for the entire cost of the project, including the operations and maintenance costs, will not require a decrease in existing basic neighborhood services.*

9) FEES AND CHARGES

Fee increases shall be utilized, where possible, to assure that fee program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

10) GRANTS

City staff shall seek out, apply for and effectively administer federal, State and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs *with the exception of pilot projects to determine their suitability for long-term funding.*

11) GENERAL PLAN

The General Plan shall be used as a primary long-term fiscal planning tool. The General Plan contains goals for land use, transportation, capital investments, and service delivery based on a specific capacity for new workers and residents. Recommendations to create new development capacity beyond the existing General Plan shall be analyzed to ensure that capital improvements and operating and maintenance costs are within the financial capacity of the City.

12) PERFORMANCE MEASURES

All requests for City Service Area/departamental funding shall include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.